

# Investment Options for Target Date Funds (Plans 3 and DCP)

## Issue

Should the Washington State Investment Board (WSIB) be allowed to modify the asset mix of Target Date Funds (TDFs) to include investment in the Total Allocation Portfolio (TAP)?

## Background

Statute provides WSIB with general authority to develop investment options for participants.

- ❖ The Plans 3<sup>1</sup> have both a Defined Benefit (DB) and Defined Contribution (DC) component. The DC component offers members several options for investment, including TDFs.
- ❖ The Deferred Compensation Program (DCP) is an optional plan that state employees, and many local government employees can participate in. It is functionally similar to the DC portion of the Plans 3 but DCP participants cannot invest in the TAP/CTF.

TDFs, which are also known as retirement strategy funds, are some of the investment options available for members of the Plans 3 and the DCP.

The Commingled Trust Fund (CTF) holds all the assets of the Plans 1 and 2, as well as the DB portions of the Plans 3. Statute allows WSIB to mix these assets together for investment purposes, and WSIB must establish policies and procedures to maximize investment returns at a prudent level of risk.

- ❖ The TAP is nearly synonymous with the CTF. Essentially, it is an administrative mechanism created to allow Plans 3 members to invest in the CTF.
- ❖ The CTF, and by extension the TAP, is invested in a variety of assets, including private equity. As of June 30, 2019, the proportion of TAP/CTF assets invested in private markets was approximately 35 percent.

## Highlights

- ❖ The bill draft submitted by WSIB does three things:
  - ◇ Allows the TDFs offered by WSIB for both Plans 3 and DCP to include the TAP.

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<sup>1</sup>Public Employees' Retirement System Plan 3, the School Employees' Retirement System Plan 3, and the Teachers' Retirement System Plan 3.

- ◇ Changes the required frequency of portfolio valuations from monthly, to not less than monthly.
- ◇ Expands the limitation of liability for state actors related to the investment portion of the DCP.
- ❖ According to WSIB, this is expected to benefit participants by providing higher risk-adjusted returns in the long run.
  - ◇ Investment policy is largely outside of the Select Committee on Pension Policy staff's expertise, so staff relied on WSIB as the investor of funds and the Department of Retirement Systems as the administrator of the plans for interpretation of the bill and some of the analysis.
- ❖ The investment of retirement funds in private markets and private equity can be controversial, and some participants or policy makers may object to the expansion of private market investing through the TDFs.
- ❖ Actuarial analysis of the sponsored bill draft is pending, and staff will update the Committee when it is available.

## Committee Activity

The Committee held work sessions on this issue at the November 2019 meeting. At the December meeting, this issue was added to the agenda during the meeting, and the Committee voted to endorse the proposal.

## Recommendation to the 2020 Legislature

Allow the asset mix of TDFs invested by WSIB to include investment in the TAP.

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